

A G E N D A

BUDGET COMMITTEE MEETING JANUARY 28, 2003

6:00 p.m. – City Hall Council Chambers

- 1) Call to Order – Chair Dave Aschenbrenner
- 2) Introductions and Roll Call—Chair Dave Aschenbrenner
- 3) Consider Approval of the December 16, 2002 and January 15, 2003
Meeting Minutes
- 4) Public Testimony and Questions
- 5) Budget Committee Comments and Questions
- 6) Budget Committee Direction and Next Steps
- 7) Set Next Meeting Date
- 8) Adjourn

Mike Swanson is available after the Budget Committee meeting to make a presentation and to answer questions on the City's budget. This is in response to many requests for a "Budget 101 class" to better understand the budget and the shortfall and the options open to the City. Anyone who wishes to attend may do so.

**BUDGET COMMITTEE MEETING
DECEMBER 16, 2002
CITY HALL COUNCIL CHAMBERS**

Budget Committee Chair David Aschenbrenner called the meeting to order at 6:30 p.m.

Budget Committee members present: Art Ball, James Bernard, Mary King, Larry Lancaster, Jeff Marshall, and Jean Michel.

Councilors Elect: Deborah Barnes and Susan Stone.

Budget Officer Comments

Budget Officer Mike Swanson reviewed the issues and events leading to Milwaukie's current shortfall. In May 2002 while preparing for the 2002 – 2003 budget process, staff projected a \$1.2 million shortfall at the beginning of the next budget year on July 1, 2003. That situation has not changed. With the defeat of the November ballot measure, Swanson recommended looking at the expenditure side of the current budget in January 2003. Right after the election, he and the finance director identified a shortfall of approximately \$977,000. However, recent Public Employees Retirement System (PERS) increases bring the shortfall back to approximately \$1.2 million.

It is important for the Committee and public to remember the shortfall is in the general fund, which is supported primarily by property taxes. Another important point to remember is that some departments are supported by dedicated funds that cannot be used for other purposes. The street department is funded by state gas taxes, and fees fund the water and sewer departments. The shortfall does not occur in these dedicated funds. The general fund supports core City services: neighborhood services, code enforcement, recycling, public access studio, police, fire contract, planning, municipal court, neighborhood grants, library, repayment to the water department for riverfront property purchases, repayment of the north main loan, contingency, and several other minor programs.

Swanson cautioned both the state and county are facing budget problems, and these entities may make decisions that further exacerbate Milwaukie's projected shortfall. For example, the legislature may take actions that reduce the City's \$300,000 in annual cigarette and liquor taxes and state shared revenues. Additionally, Clackamas County may reduce payments to cities, specifically for libraries.

Milwaukie voters sent a clear message in November, and Swanson recommended reviewing and imposing adjustments this fiscal year to reduce the

projected July 2003 shortfall. He further recommended beginning the 2003 – 2004 budget process to eliminate the rest of the shortfall by making adjustments in the whole budget.

Public Comments

Pat Healy, Ledding Library Board Chair, joined by other Board members and library advocates, urged continued support of library services. His 3 main points were: library funds are in jeopardy of being used for other departments; circulation-based funding will go down if library hours are reduced; and proposed changes to the County distribution formula would reduce Ledding Library funding by about \$30,000 next year. The case can be made that the Library is an essential City service as well as being an important factor in downtown revitalization efforts.

Councilor Elect Comments

Barnes said it is important to have a Milwaukie vision as part of the Budget Committee mission. She encouraged creating a development plan that would attract investors and developing partnerships, particularly with the North Clackamas School District. City Council members must work together to keep citizens informed. She recommended a review of City contracts, vehicle purchases, travel expenses that could be reduced by using technology, and cable access studio operational cost reductions. There are many grant opportunities available, which Barnes believes the City should investigate.

Stone feels the Budget Committee is making a good start in determining how to allocate funds to meet the shortfall. As a conservative, she did not support the November ballot measure. She urged a creative and thoughtful process leading to a change in the way funds are allocated rather than cutting positions.

Budget Committee Comments

King felt it should be clear the Budget Committee would not be vindictive in its reductions. It is important to maintain as many living wage jobs as possible and to sustain those essential services that make up the soul of the community of which neighborhood and library services are examples.

Bernard expressed his appreciation to those taking time to attend this meeting to show their support for City services. Although he felt the ballot measure should have passed, the voter response was clear, and he does not intend to be vindictive when budget adjustments are made. He noted the many outside forces at work including shortfalls in state and county budgets.

Marshall feels strongly about supporting the system of neighborhood associations and the work that has gone into building communications between residents and their local government. The services currently being provided are the ones citizens identified in the yearlong neighborhood visioning process. Budget Committee decisions and Council policy, once set, take time to emerge in the community. Marshall urged the group to be thoughtful and protective of what has been gained. The process is dynamic, and the long-term projection is not necessarily bleak.

Ball had shared his thoughts and concerns with the mayor, city manager, and several Budget Committee members after the election. Among his recommendations for expenditure cuts were: implement a hiring freeze that would include no replacement personnel for vacations and extended leaves; eliminate all dinners for staff and advisory committees; purchase no new equipment; reduce neighborhood grants to \$5,000 annually, freeze wages for all non-union employees; re-evaluate pros and cons of annexation; and reduce number of employees through attrition. He further suggested taking police and library out of the general fund and going to the voters with operating levies.

Lancaster said the simple fact is that funding has gone away, and the City is faced with making hard choices about cutting some very good programs. He believes it is essential to hear from as many citizens as possible to understand which programs should be preserved and which to let go.

Bernard believes police and library are essential community services; however, what form these services may take is the difficult question. He knows the county will cut library funding, so something must be done now. In order to preserve the library, it may have to close for a day or half day. He urged the police department to look for cost efficiencies through the City's emergency dispatch agreement with Lake Oswego and use of technology. Some employees will retire because of the PERS situation, and that in itself will help the City. There are many significant problems ahead, and Bernard hopes the citizens will share their feelings with the Budget Committee.

King added she was disappointed the ballot measure had failed so substantially. She reminded citizens to think about what priorities go into making a wonderful city like Milwaukie.

Aschenbrenner announced a vacancy on the Budget Committee and urged citizens to attend future meetings.

Next Meeting

January 15, 2003, 6:30 p.m., Council Chambers. Swanson will provide some alternatives for cutting expenditures and provide the Committee with a target. The issue will be what the policy makers want Milwaukie to look like with a balanced budget. It would be very helpful for citizens to testify at the next meeting about what services they want the City to provide. Decisions made on these general fund programs define the community.

The group agreed it is important for the newly seated Council to review the Community Goals and either affirm or change them before the Budget Committee meets.

Lancaster requested updated general fund revenue figures.

Kappa suggested postponing the next Budget Committee meeting until neighborhoods had a chance to respond.

Stone suggested outreach through *The Pilot*, setting up phone line for citizen input, and using the website.

The meeting adjourned at 7:45 p.m.

Pat DuVal, Recorder

**BUDGET COMMITTEE MEETING
JANUARY 15, 2003
CITY HALL COUNCIL CHAMBERS**

Budget Committee Chair David Aschenbrenner called the meeting to order at 6:30 p.m.

Budget Committee members present: Art Ball, Deborah Barnes, James Bernard, Gary Hubbard, Larry Lancaster, Jeff Marshall, Jean Michel, and Susan Stone.

Aschenbrenner made some preliminary comments on the conduct of the meeting.

Budget Officer Comments

Budget Officer Mike Swanson briefly reviewed the events leading to the anticipated \$1.1 million general fund shortfall in fiscal year 2003 - 2004. The initial proposal to put a measure on the ballot seeking voter approval of annexing to Clackamas County Fire District #1 was tabled because of its complexity. Instead, a local option tax measure was put on the November 2002 ballot, but it was defeated. People ask how the City got to this point, and Swanson sees it as a cumulative effect of various decisions and events occurring within the organization as well as influences from the outside. Many local governments in Oregon are looking at similar shortfalls due in large part to the duration of the current economic downturn and tax limitation measures. For example, the City's interest income is about 25% of what it was several years ago. The City has taken steps to increase general fund revenues such as the one-time transfer of \$362,000 from the Milwaukie Jr. High School acquisition fund. In a few years, Milwaukie will see general fund savings through the recently completed dispatch services agreement with the City of Lake Oswego and the full repayment of the water fund loan to purchase riverfront property. There is also the threat of reductions in state and county funding as a result of their own budget shortfalls. He offered to stay after the meeting or schedule small group meetings if people wanted more detail on the budget, the projected shortfall, and available options.

Community Goals

The City Council met in a work session of January 11 to review the Community Goals and provide the Budget Committee with additional policy direction for the decisions that lay ahead. **Bernard** read the Vision, Mission, and Goals as modified. He felt it had been an oversight that "support library services" was not included as an objective in the goal of "supporting community environmental sustainability and livability" and recommended it be added to the draft document.

Bernard said when discussing how Milwaukie got to this point people tend to blame the system. The City, like many individuals, is faced with a lot of added expenses, but it does not have the same options available. An individual can turn off the lights when leaving a room, but the City cannot shut off its streetlights. A city budgeting system must always support and protect the community. The system is good, but cuts must be made and made fairly. He feels the City must provide the same system currently enjoyed by its residents but possibly at a reduced level.

Kathy Buss, Lake Road resident and Centennial Committee person, discussed the importance of the office of neighborhood services in the upcoming Centennial Celebration. Buss also sent comments to the Budget Committee via e-mail as a private citizen.

Carlotta Collette, Johnson Creek Boulevard resident, understands the magnitude of this problem. The neighborhood services program is efficiently run and provides residents with important access to their local government. The police department and Ledding Library also offer great services. Unfortunately, there is not enough money to pay for all the wonderful programs currently offered. She encouraged finding ways to raise money through grants and by making small cuts where possible in the police department and perhaps closing the library for one day a week. She stressed the importance of protecting the neighborhoods.

Linda Hatlelid made several recommendations: prioritize budget cut solutions through neighborhood association and departmental brainstorming; make proportionate cuts across the board rather than single out 1 or 2 departments; reduce costs by combining neighborhood associations; evaluate police revenues to ensure enough stays at the local level; provide budget information in numbers and percentages instead of using charts; and reduce consultant expenses by using existing resources.

Sara Smith, Washington Street resident, feels the office of neighborhood services is essential to the community and acts as a bridge between the average citizen and the local government. It encourages people to participate and keeps residents informed. Code enforcement is also essential to maintaining and increasing property values in Milwaukie. She feels encouraged to work toward positive change in her neighborhood and the sense her input is important to the City Council. Milwaukie is a special place to live because of its neighborhood services program.

Ed Zumwalt read an article that recommended refraining from any demand or public policy proposal unless it can be prefaced with the words, "we would all be better off if..." People have been jockeying for position during the last 4 months because of the projected budget shortfall. One thought is to gut the whole thing; others say to run the city like a business or like our own homes. He urged

support for the Ledding Library because it is a gem for the City. Although the library is always busy, there is a constant concern the funds will be cut. The library receives funds from the City and Clackamas County. \$515,000 of the \$805,000 allocated from the City's general fund is transferred back to administrative services and facilities leaving only \$290,000 to operate. Money from the county is going to be cut back. Its neighbors will judge Milwaukie by the decisions made about the library. We cannot let the people down who use it. His other interest is the office of neighborhood services and all it entails. It has grown so much over the past several years and has taken on community development projects including the South Corridor Study and downtown parking program along with the Centennial Celebration and ongoing public information pieces. He suggested reducing the neighborhood grant program. He urged not letting the City revert to what it was several years ago.

Marshall reminded the group that the Library was allocated funding in excess of what the Budget Officer recommended for the past 2 budgets.

Amy Hough, Lewelling Neighborhood Association secretary, urged maintaining the office of neighborhood services to sustain neighborhood activities, code compliance, and the grant program, which has gone to such worthwhile endeavors as the Milwaukie Museum, children's sports, the outdoor pool, social events, and community aesthetics. Residents have come to depend on having a line of communication with city hall and neighborhood services. Neighborhood associations are responsible for progress on light rail, cleanup of unsightly properties, increased child safety, sidewalks, traffic signs, outdoor classroom maintenance, and generally having a positive impact on city government. Neighborhood representatives are active on Council appointed advisory boards. She feels strongly about this community and wants to keep it a strong and healthy environment for its residents.

Pat Healy, Library Board Chair, provided information he felt relevant to the Budget Committee's decision. First, is the confusing accounting detail of the library's receiving \$805,000 from the general fund but transferring \$515,000 back for administrative and facility charges. The true percentage cut would more accurately come from the \$290,000 with which the library is left to operate. Additionally, there are factors outside the City's control having to do with Measures 47 and 50. Clackamas County is facing economic conditions that could reduce future contributions to Ledding. This makes it all the more important for the City's funding share to remain as stable as possible. Further, the library is funded in part by the number of items circulated. To reduce the hours it is open to the public would likely result in a decline in circulation. Finally, the County has changed its formula for distributing funds, and Milwaukie will probably see a \$30,000 reduction. The Ledding Library is an essential service to citizens particularly in lean economic times. It has circulated over 500,000 items this year, which is a 10% increase over the previous year. Its attractive location makes the Ledding a prime catalyst for downtown redevelopment. The Library

understands the budget problems and expects to experience its fair share of cuts. Budget reductions should be proportional across all departments and based on their ability to perform essential functions. Reduced county funding will already have a negative impact for the year ahead. County cuts plus any City reductions will have a cumulative effect on the level of service the Ledding Library is able to provide. The library wishes to provide a high level of service to its patrons, but reduced hours will result in a downward spiral with real consequences.

Barnes asked if a non-resident user fee would be feasible if the County reduces its funding.

Healy said this would be one desperate measure to consider, but he hopes something can be worked out through the Library Network. He will provide more details on county funding as information becomes available.

Sharon Bradshaw, Library employee, understood about 25 years ago a non-resident fee of \$15 was charged but resulted in a decline in circulation.

Tyler McCune, Filbert Street resident, feels neighborhood services is an important part of the city's functions and provides residents with a connection to what is going on in the City. He reviewed the budget document and was surprised to find the programs in jeopardy of being cut are actually a small percentage of the general fund. The police department, for example, is about 42% with an officer to population ratio that is higher than many cities in the nation. He feels some of the reductions could come from the police department in order to reduce the burden on smaller departments.

Juli Howard, AFSCME president and city resident. She met with employees and management staff to compile a list of possible cost cutting measures. Unfortunately, all of these suggestions do help the general fund. On behalf of the employees, she expressed the hope that sufficient lay off notice would be given in light of the current job market. She further hoped cutting employees would be a last resort, but if jobs are cut they should be across the board and include management positions. She recommended pulling back accounts at Metro Area Collections because it charges a 50% fee, and most of the activity coming from Metro is a result of city staff re-suspending peoples' licenses. The current collection agency only charges 12%. The Planning Department suggests charging for pre-application appointments, as is the practice in some other cities. The City currently charges the North Clackamas Parks District \$1 annually for use of the city-owned facilities at 37th Avenue/Railroad Avenue and 40th Avenue/Harvey Street. The facilities department suggests a study of what the standard rate would be for leasing such facilities. She hoped cutting employees would be the last resort, and if it does occur it would be done across the board with as much notice as possible. Employees are feeling anxious and would like to know as soon as possible if their jobs will be cut.

Lancaster and **Barnes** appreciated the time and effort that went into compiling the list of cost saving ideas.

Sharon Bradshaw reiterated the importance of the library to the community. Lately the library has been impacted by the Waldorf School, which at this time does not have its own library. Circulation is up 10% and is almost beyond what staff is able to handle. The First Saturday Program, free to attendees, is very popular and attracts people who might not normally come to the library. One of the future goals is to have a community meeting room in which these types of programs can be held and not interfere with the normal library operations. Positions left vacant by 3 retirements this year are not slated to be filled, and this means there will be fewer people to do the work. The Ledding Library counts on its volunteers for many activities, but there is only so much that can be asked of a volunteer.

Barnes asked if Waldorf parents have been contacted about volunteering.

Bradshaw said the high school students volunteer to earn extra credit. The children's librarian would have to speak to the issue of parent volunteers.

Roman Moreno, Milwaukie resident and manager of a Beaverton hospitality facility, thought the city should consider leasing underused facilities to generate income.

Bernard commented it is important to look at workloads when considering staff reductions. For example, the Budget Committee packets require printing, mailing and assembly. Since the library provides free Internet access, interested persons could use this avenue to find information and help reduce staff workloads. He supported the idea of recalling the Metro Area Collection accounts and urged people to volunteer at the library.

Stone directed her comment to Juli Howard. She thanked her for the thorough review of possible cost reductions. As the union representative for city employees, has the membership been asked if they would be willing to take an across the board cut?

Howard said this issue has been discussed at union meetings. A lot of employees, for example, those in the street and water departments, are not in the general fund but have said they would be willing to forego a cost of living increase. However, because of the collective bargaining agreement, the city manager would have to speak with the AFSCME business representative and ask that the contract be opened. Members would vote on whether or not they would forego cost of living and step increases. Other employees indicated they would not support this because of increasing health care costs. She noted the City's payable has not been re-evaluated since 1988, so wages have not been

evaluated for over 10 years. There are various options, but the contract would have to be opened.

Stone did not believe there was any person sitting at the dais who wants people to lose their jobs. She appreciated the thoughtful recommendations and will look at them closely.

Swanson said the requests just discussed were made to the union presidents, but this was the first response he has heard from AFSMCE on the issue.

Lancaster felt these ideas should be pursued aggressively. This is a very real situation in which the true major portion of the cost of what the city does is in personnel. From what he has observed over the past 5 years, the City has nothing but high quality employees. It speaks very highly of the caliber if people are collectively willing to take a little less to keep their co-workers employed. It is an avenue that must be pursued.

Howard said employees have indicated they would only be willing to do that if it was across the board and included management.

Bernard pointed out that Swanson did not take his increase, so management has taken a cut.

Lancaster asked for a brief explanation of the facilities occupancy and general administrative service charges.

Swanson said when he and the finance director took over budgeting responsibilities, neither could understand how administrative expenses were charged back to the department. As a result, they looked for a simple, justifiable way to allocate administrative charges, hence they based calculations on the number of full time equivalent (FTE) employees within a budget. The rationale was that the amount of administration was the direct result of the number of employees. An example of this is payroll preparation. Once the administrative service budget was constructed, staff divided that amount by the number of FTEs to determine the charge per employee then multiplied it by the number of employees in a particular fund to determine the allocation. Those departments with the highest number of employees, which in the general fund is police and library, ended up with the highest administrative charges. These monies are transferred to support administrative services. Facilities administration and upkeep is based on a square footage charge. The reasoning behind this is establish equity between departments rather than, as some budget officers do, having fee supported funds pay for the entire city administration.

Lancaster had several questions after looking through each individual fund.

1. How much would be saved by reducing *The Pilot* from 8 to 4 pages?
2. Recycling program -- What percent of other funds are received for that activity and are there state or federal requirements for that activity?
3. Public access studio – What percent is funded by PEG? What is the situation contractually with the Fire District regarding that facility?
4. Municipal court – Can it be considered to be self-sufficient? Swanson said the conclusion was that it is not. Lancaster wants to revisit what would make it self-supporting to take it off the table.
5. Library and potential cut backs – How many cuts could be made before county funding is impacted?
6. Water fund repayment – Could there be a longer pay off? Swanson said by statute the repayment period cannot exceed 5 years; however, staff is looking at refinancing the 2 or 3 years left on the loan which would result in smaller payments from the general fund.
7. Facility charges and contract with the Fire District – Why does the City take such a huge hit by charging itself facility occupancy? Shouldn't the district be paying for that? Swanson said the contract with the District says the City bears the burden of facility charges. The contract expires in 2008.
8. Collections -- He supported the new collections contract. Swanson has sent a letter to Metro Area Collections, once again, demanding return of the files. The reality is the files are not truly Metro's until assigned, and most have not been assigned. The collection agency has been informed its requests for assignments will not be honored, so the old files are virtually worthless. A majority of the files are quite old, and while there may be \$2 million outstanding that does not mean they can be fully collected. The returned files will be turned over to Valley Credit, which has shown to render better service at a smaller percentage than Metro Area Collections.
9. Parking management -- He asked if there would be a parking management contract? Swanson said he will provide a status report on discussions with the private provider. Swanson regarding collections, he has sent a letter to Metro. A similar letter was sent in September 2001, but Metro did not return the files.
10. Overtime budgets -- Lancaster saw overtime budgets in some funds and suggested they be eliminated.
11. Milwaukie Downtown Development Association (MDDA) funding -- When does funding for the MDDA end? Swanson said the general fund support ended last year, and the remaining surcharge funding ends this year. Bernard said at this time the businesses are paying for the MDDA, and the City is no longer subsidizing its operation.

Ball appreciated hearing from concerned citizens about their support for existing programs. The last thing the Budget Committee wants to do is lay people off. He suggested reducing the standard workday to 7 hours, which, based on an average hourly rate would save about \$500,000 a year. He asked if the 10% priorities were implemented last year, and Swanson responded that they were.

Ball asked if there was an estimate on the property tax revenue this year.

Swanson said there are some preliminary figures available, and he will provide them at the next meeting.

Ball asked if the City could increase its permanent tax rate.

Swanson said this could be done only by a local option tax and only temporarily.

Ball asked how the PERS increase impacts the general fund.

Swanson said the increase put the shortfall up to \$1.1 million.

Ball agrees with some of the suggestions provided including cutting out dinners and reducing refreshments at meetings. He agrees with a wage freeze and the current hiring freeze. He recommended placing a moratorium on purchasing new equipment and looking at maintenance program to increase the life expectancy.

Next Meeting

January 28, 2003, 6:00 p.m., location to be determined. This will be the final opportunity for public comment. The Budget Committee will discuss the issues and provide direction to the Budget Officer for preparing a recommendation upon which the Committee will act at its next meeting.

Adjournment

It was moved by Marshall seconded by Ball to adjourn the meeting. Motion passed unanimously among the members present. Chair Aschenbrenner adjourned the meeting at 8:00 p.m.

Pat DuVal, Recorder